

GAO Cost Assessment Guide

and why you should know about it

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Outline

- Purpose of Guide
- Guide Background
- Overview
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- Why You Should be Aware

Purpose of Guide

- Original: Provide auditors with a standardized approach for analyzing programs
 - Recognized gap in guidelines for developing credible cost estimates
- Shifted Purpose: Establish consistent methodology, based on best practices, to be used across the federal government and industry for developing and managing program cost estimates

Guide Background

- Guide was developed in consultation with a “community of experts” from both federal government and industry
 - Development began in June 2005
 - Community of experts provided review and feedback over development process
- Exposure draft released on 02 July 2007
- Guide can be found on GAO website <http://gao.gov> (GAO-07-1134SP)
- Comments and suggestions submitted at <https://tell.gao.gov/costguidecomment>
 - Requires creating an account (user id and password)
 - Period for comments is “about 1 year” from release date

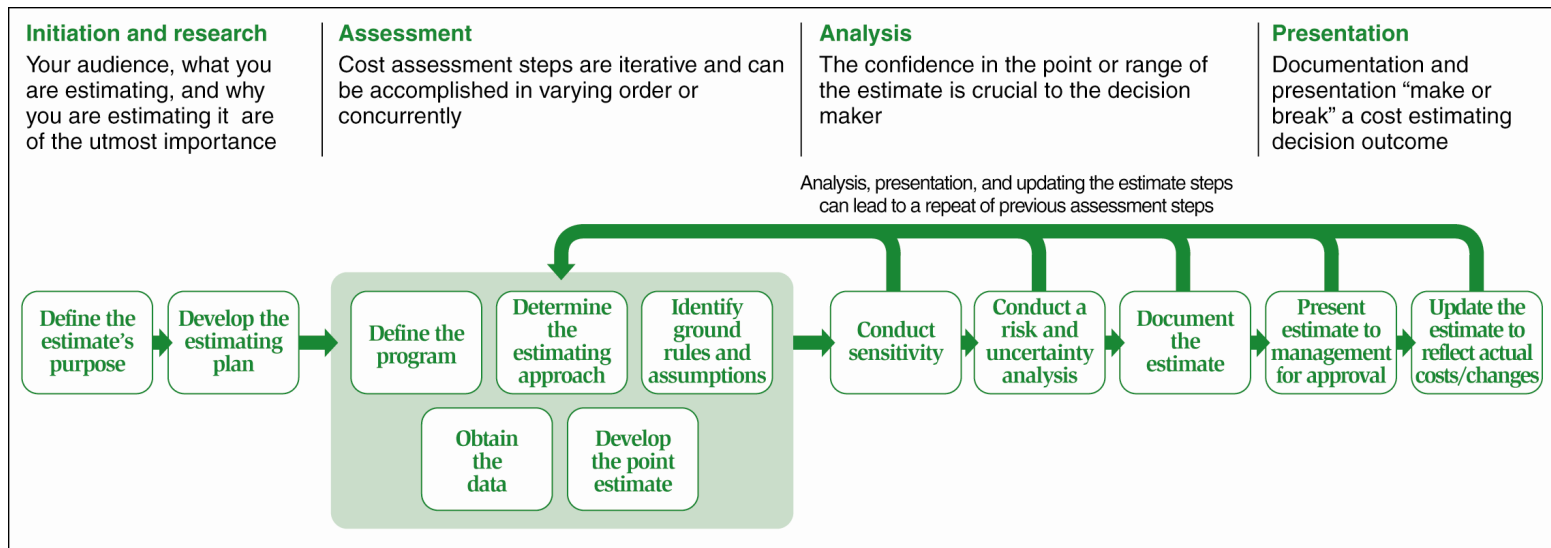
Overview

Guide consists of 20 chapters with supporting appendices

- Chapters 1-17 discuss the importance of cost estimating and best practices associated with creating credible cost estimates
- Chapters 18-20 provide guidance on converting the cost estimate into an executable program and a means for managing program costs
 - Details of EVM
 - Risk Management
 - Other program management best practices
- Appendices: Assortment of resources/background information and data request forms

12 Step Process is the Basis of the Guide

- Process for creating a reliable cost estimate outlined in first chapter
- Best practices to achieve this reliable cost estimate addressed throughout remainder



Source: GAO.

Also Throughout the Guide

- Auditor program assessment checklists of “Best Practices”:
 - Identifying if a program meets best practices
 - Look for common pitfalls that may undermine reliability of cost estimates and program baselines
- Case studies showcasing typical pitfalls that can occur in the cost estimating process

Sections of Interest

- Ch. 13: Sensitivity Analysis
 - Reveals how the estimate is affected by a change in a single assumption
 - Helps decision makers choose the alternative
 - Provides a range around a point estimate
 - Should be included in all cost estimates (Best Practice)
- Ch. 14: Cost Risk and Uncertainty
 - Point estimates alone are insufficient for good decisions
 - “...experts agree that program cost estimates should be budgeted to at least the 50% confidence level.”
 - Risk reserves need to be allocated to the appropriate WBS elements.
 - Discusses the benefit of S curves

Additional Sections of Interest

- Ch. 15: Validating the Estimate
 - Determine if estimate is comprehensive, well-documented, accurate, and credible
- Ch. 17: Presenting the Estimate to Management
 - Results of sensitivity analysis
 - Results of risk/uncertainty analysis with confidence levels
 - S curve analysis
- Appendix VI and VII: Data collection instrument and data request rationale – expect to get this if GAO conducts an audit

Why you should be aware of the GAO Cost Assessment Guide

- Useful as a consolidated resource of best practices for cost estimating
- Best practices checklists throughout the guide
 - Recent GAO audit very critical of program office cost estimate for not following best practices
- “By default, the guide will also serve as a guiding principle for GAO auditors to evaluate the economy, efficiency and effectiveness of government programs”

How to Comment on Exposure Draft

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